# Economic Outlook World 1984

## Overview

December 1983

In 1984 the United States' recovery will lead the world economy out of stagnation. However, the global recovery will be fragile and narrowly based, with many structural problems remaining. Aggregate global output is expected to grow by 3.7 percent in 1984. This compares with 0.2 percent in 1982 and 2.0 percent in 1983 (See Table 1).

There will be significant regional disparities in the 1984 growth performance. North America's economic expansion rate is anticipated to reach 5.5 percent, whereas the Western European growth rate will be only about 2 percent. Both the Middle East and Asia will make significant output gains (See Figure 2).

Labor market conditions will show little or no improvement in 1984, and the unemployment rate in the seven major industrial countries will average around 10 percent.

Globally, the average inflation rate for 1984 is estimated to fall to between 11 and 12 percent, down from 13.0 percent in 1982 and 13.7 percent in 1983, despite a mild increase in the U.S. and Japanese rates (See Figure 1).

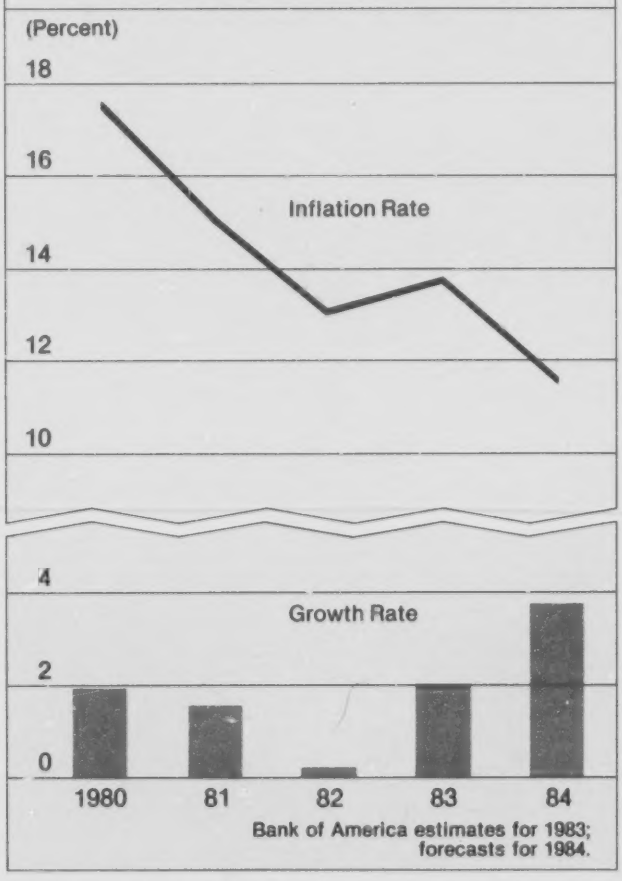
Merchandise trade should start expanding slowly in 1984, along with the world economic recovery. World exports measured in U.S. dollars are expected to grow by an estimated 10 percent after a two-year stagnation, with most of the increase attributable to higher commodity prices. The industrial countries will experience growth of both exports and imports. The Middle East, by contrast, will be in a phase of trade stagnation after three years of sharply falling export earnings and diminishing import growth. In Latin America, the slow export recovery is likely to continue, while import expenditures begin to expand after two years of austerity-induced contraction.

The international payments situation in 1984 will reflect three major adjustments in the world economy. First, the U.S.-led recovery, coupled with a very strong dollar in 1982-83, will lead to unprecedented deficits in the U.S. current account. Second, reductions in income and spending growth and in maturing interest obligations will help reduce the Latin American region's large current account deficit from its 1981-82 highs. Third, the gradual elimination of the Middle East's large surplus has now been completed, as the world economy has adapted to previous oil price increases and oil prices in turn have weakened.

### Forces Behind the Recovery

The 1983-84 upturn of the global economy is a delayed cyclical recovery from the severe 1980-82 recession. The recovery will be led by the American consumer. Postponed purchases of automobiles and houses, as well as a general resurgence of demand for retail goods, are the key forces behind this trend. Lower interest rates, tax reduction, and improved household balance sheets all serve to underpin the consumer-led recovery.

**FIGURE 1 WORLD INFLATION AND REAL ECONOMIC GROWTH 1980-1984**




Growth is picking up while inflation continues to decline.

Monetary policies in major countries are anticipated to be more accommodative than in recent years, thereby helping to sustain private demand, while fiscal policies are likely to become somewhat more restrictive than they have been. At the same time, the failure to reduce budget deficits significantly, both in the United States and in other industrial countries, will continue to create concern in the capital markets and, just as in 1983, add a significant inflation premium to the real costs of credit. Nominal interest rates in the key financial markets are likely to trend slightly higher in 1984 than in 1983, reflecting both increased private credit demands and nagging doubts about long-term price stability. Real interest rates will remain higher than they were in the low-inflation 1960s and early 1970s.

The speed and breadth of the 1984 global upswing will depend greatly on the ability of major developing countries to service their external debts and to secure access to international credit markets. Reschedulings, and accompanying adjustment programs, will prevent trade disruptions and trade-flow distortions that could have resulted from unresolved debt-service problems and an inability to obtain new trade finance. Furthermore, the stretching out of repayment obligations will obviate the need for even more drastic cutbacks in imports.

# The World Economy

## International Trade

World trade will start to expand slowly in 1984, after three years of decline or stagnation. The dollar value of world exports is expected to grow by about 10 percent in 1984, after growing by only 5 percent in 1983 and declining in both 1982 and 1981. The global export volume, after adjustment for anticipated global inflation, is estimated to rise very little, if at all, in 1984. World trade growth will not return to the high rates of the 1970s unless and until world recovery gains more speed and import restrictions are relaxed. Economic recovery, supported by less restrictive monetary policies, will stimulate demand for imports in 1984. In addition, the reduced costs of oil imports, relative to 1980-82, will permit a renewal of demand for other imports by industrial and non-oil-producing developing nations.

**Table 1 World Economic Growth Rates 1982-1984**

| | GDP Level ($ Billions) | Real GDP (Percent Change) | | |
|---|---|---|---|---|
| | 1983 | 1982 | 1983 | 1984 |
| World | $12,310.5 | 0.2 | 2.0 | 3.7 |
| North America | 3,589.6 | -2.1 | 3.3 | 5.5 |
| Western Europe | 3,223.3 | 0.4 | 0.8 | 2.1 |
| Eastern Europe | 1,693.4 | 2.0 | 2.4 | 2.5 |
| Middle East | 427.2 | -2.0 | -0.6 | 6.6 |
| Africa | 417.6 | 0.0 | 0.3 | 3.2 |
| Asia/Pacific | 2,212.4 | 3.1 | 3.4 | 4.4 |
| Latin America | 747.1 | -0.5 | -1.7 | 1.0 |
| OECD Members | 8,273.4 | -0.3 | 2.3 | 3.9 |
| OPEC Members | 674.3 | -1.6 | -0.8 | 4.8 |
| Non-OPEC Developing Countries | 1,488.5 | 0.8 | 1.1 | 3.4 |
| Centrally Planned Economies | 1,874.3 | 2.8 | 2.6 | 2.8 |

Bank of America estimates for 1983; forecasts for 1984.

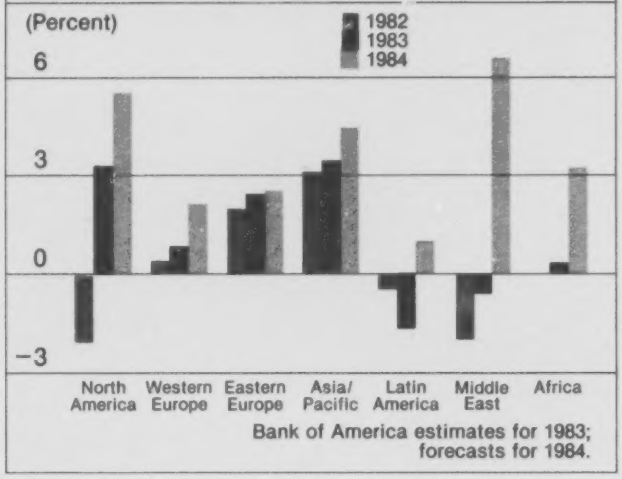
## Protectionism

Protectionism will continue to spread and intensify during 1984, even though the recovery should help moderate its appeal and urgency. Industrial countries are now habitually imposing unilateral trade restrictions for the sake of reciprocity, bilateralism, national treatment, and retribution. The nature of protectionism has changed considerably during the last decade. While "old" protectionism relied primarily on increases in relatively easily-measured tariffs, "new" protectionism, involving a plethora of subsidies and non-tariff barriers, is much more subtle, and its effects are more difficult to quantify. Protectionism will delay the need for the industrialized countries to bring their production facilities more into line with actual resource availabilities and cost conditions. Moreover, it will hamper the developing countries' attempts to get more liberal access to markets in industrial countries.

## Trade Patterns

Major structural changes are under way in international trade patterns. Export market shares will continue to rise for the Newly Industrialized Countries (NICs) and for manufactured exports generally. The NICs, including Brazil, Mexico, South Korea, Taiwan, Singapore, and Hong Kong, will capture increasing shares of manufactured export markets. The market shares of industrialized countries will, meanwhile, decline in the face of increasing competition. The developed countries will concentrate their export growth in technologically sophisticated goods, such as telecommunications equipment and computers, and services, such as banking and insurance, where they enjoy a comparative advantage. The NICs will

**FIGURE 2 REAL GDP GROWTH BY REGIONS 1982-1984**




Bank of America estimates for 1983; forecasts for 1984.

Recovery is now apparent throughout most of the world.

concentrate their export growth in more traditional manufactures such as automobiles, steel, appliances, and petrochemicals. The OPEC countries and Canada will continue to place special emphasis on petrochemical products in the years to come.

### Export Trading Companies

A new element in the international trade scenario for 1984 will be the emergence of export trading companies (ETCs) in the United States. Their global impact will arise from the change in business strategy that American ETCs will generate in world commerce. Trade will begin to be considered as a global information opportunity, rather than merely a goods-handling problem, as ETCs exploit the profits that can be generated by worldwide telecommunications networks and computerized global payments systems. These changes in U.S. business practices can be expected to encourage companies in Europe and the NICs to establish or reorganize their own competitive trading companies.

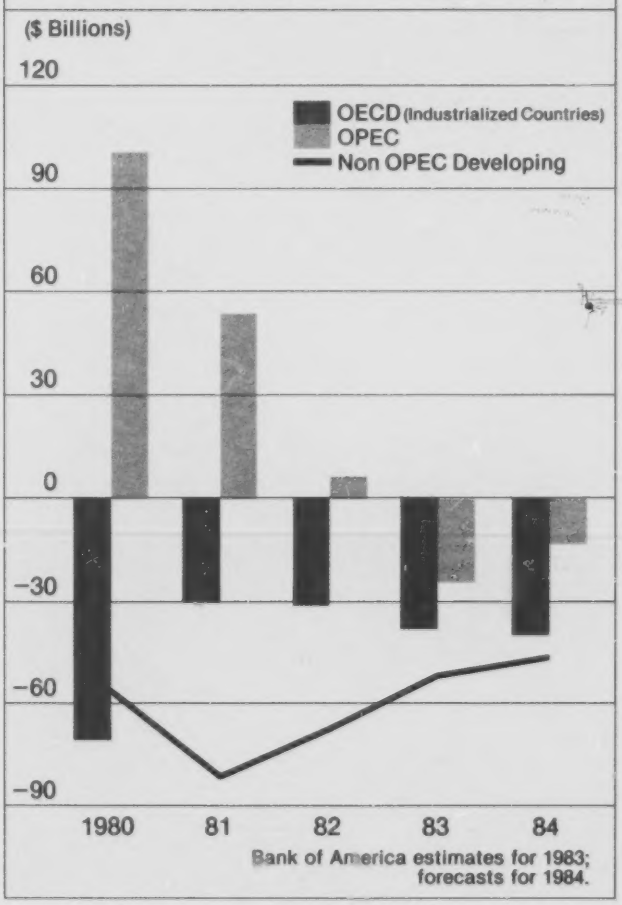
## International Payments Balances and Capital Markets

The global balance of payments picture in 1984 will continue to improve. Both national and regional payments patterns will become more sustainable. This trend is evident in the disappearing OPEC surplus, in moderating deficits in Latin America, and in shrinking deficits for both Western and Eastern Europe (See Figure 3). The main exception is the United States, which in 1984 is likely to see another record trade deficit.

OPEC's decision to cut its benchmark price by $5 in March 1983 accelerated the elimination of its current account surplus, which peaked in 1980 and remained large in 1981. Thus OPEC will record a projected deficit of $13 billion in 1984. Despite the massive external financial assets of Saudi Arabia and other oil producers, OPEC nations are likely to borrow short-term at relatively low interest rates rather than liquidating longer-term high-return investments. Consequently, in contrast to 1979-82, there will be a much smaller supply of new funds to the international capital markets from the oil producers.

In the industrialized countries, reduced oil prices and oil import bills, and slowly expanding export demand, are expected to contribute to a current account deficit of about $40 billion. The overvaluation of the dollar in 1982-83 should make the Western European countries increasingly competitive, helping to bring their deficit from $17 billion in 1983 to $13 billion in 1984. Even if the dollar should depreciate substantially against leading European curren-

**FIGURE 3 CURRENT ACCOUNT BALANCES**




Bank of America estimates for 1983; forecasts for 1984.

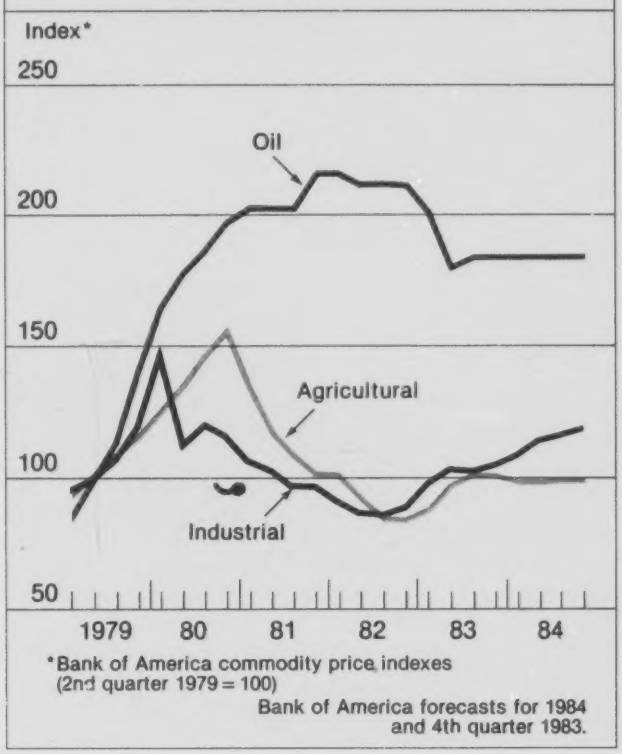
The industrialized countries' current accounts are stabilizing as OPEC's surplus disappears and large imbalances remain in the developing world.

cies by mid-1984, the European trade position vis-à-vis the United States will nevertheless continue to improve throughout that year.

In the United States, the combination of a somewhat earlier and stronger recovery and an overvalued dollar can be expected again to produce a very large current account deficit, amounting to $40 billion for 1984, as compared to $35 billion in 1983. Most of this deficit will be matched by an inflow of private capital into the United States, in response to a perceived climate of security in this country and expectations of a continued strong dollar in the immediate future.

The payments balances of the non-oil-producing less-developed countries (LDCs) should benefit from the expected upturn in the prices of primary commodities and the prospects of increased export demand. Lower international interest rates, as compared with those in 1980-82, will also help to alleviate their payments difficulties. Their total deficit is projected at $47 billion in 1984, compared with $70-$80 billion in 1981 and 1982. Much of this improvement is accounted for by Asian countries enjoying relatively rapid export expansion. Despite past problems with respect to LDC and Eastern European debt, commercial banks are expected to extend a significant amount of new credit in order to see the troubled countries through their adjustment process.

**FIGURE 4 TRENDS IN WORLD COMMODITY PRICES 1979-1984**




*Bank of America commodity price indexes (2nd quarter 1979 = 100)

Bank of America forecasts for 1984 and 4th quarter 1983.

Industrial commodity prices continue to recover, unlike agricultural commodity prices, which are leveling off. The price of oil will remain at its current lower plateau.

## Commodities and Energy

Commodity prices are expected to rise by 6 percent on average in 1984, following a 10 percent rise in 1983, when prices began to recover from a three-year slide (See Figure 4). While economic recovery in the United States has contributed to rising industrial commodity prices, it has not had as significant an impact on agricultural commodity prices.

Industrial commodities will be the major contributors to the overall commodity price increase in 1984, with a projected 13 percent rise. This increase, on top of a 15 percent boost in 1983, will cause average annual prices to approach the peaks reached in 1980. Price gains in 1984 will be more broad-based than those in 1983, which were concentrated in commodities, such as lumber and aluminum, needed for the rapidly recovering U.S. housing and automobile sectors. For many producers, 1984 will restore profitable price levels and higher rates of capacity utilization; yet there will be little new investment in plant and equipment.

Price improvements for agricultural commodities will be considerably slower than for industrial commodities. Prices of agricultural commodities will increase by an average of only 2 percent in 1984 after a 7 percent increase in 1983.

World economic growth will contribute to a slight increase in oil consumption in 1984. World crude production will expand by 5 percent, after having stagnated in 1983. The moderate expansion of both consumption and production, coupled with a partial rebuilding of oil stocks, should keep the average global oil price close to the $29 level established in the spring of 1983. Non-OPEC production, including that of the communist bloc nations, will average slightly more than 36 million barrels per day (mb/d), while OPEC production will average 20 mb/d for the year—15 percent higher than in 1983, but considerably below the levels of the late 1970s.

## Debt Service Capacity

The international economic environment in 1984 will be conducive to improving the debt service capacity of major borrowers in international capital markets. In particular, the large LDC debtors stand to benefit from a series of positive factors: economic recovery in the Organization for Economic Cooperation and Development (OECD) area, serious adjustment efforts by several of the main debtors, and increased surveillance and lending by the IMF. Furthermore, although the rate of international bank

lending has declined markedly since 1980, new net lending continues (See Figure 5), and the major private international lenders are not expected to significantly reduce their international exposures. The rate of growth in long-term external debt in the non-OPEC LDCs, after increasing sharply in 1983, is expected to drop dramatically in 1984. At the same

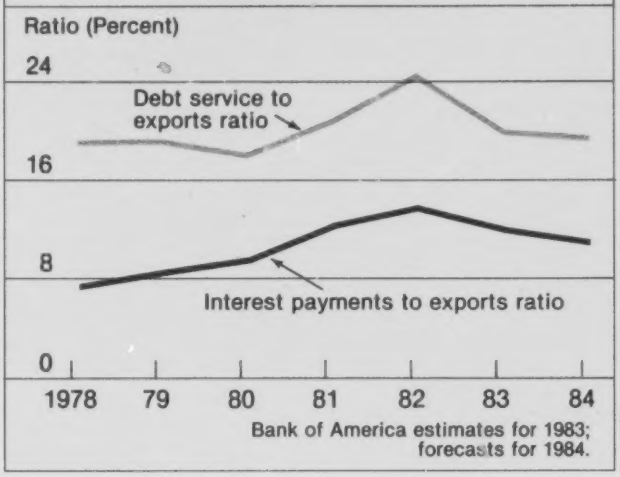
**FIGURE 5 RATE OF GROWTH IN INTERNATIONAL BANK LENDING 1977-1983**

Banks have slowed the growth of their international lending markedly since 1980.

time, the burden of debt service payments has been substantially reduced through reduction in interest rates since 1982 (See Figure 6) and through a stretching out of repayment schedules. Nonetheless, debt problems will remain a major challenge for the international economic community. It is unclear how durable and robust the OECD recovery will be as real interest rates will remain stubbornly high in several key economies.

Currently more than 25 countries are in arrears or in the process of rescheduling. The combined outstanding debt to banks of these countries is estimated at around $200 billion. Total external indebtedness in the world economy is currently estimated at $1.5 trillion and is expected to reach almost $1.7 trillion at year-end 1984.

**FIGURE 6 DEBT SERVICE PAYMENTS BY NON-OPEC DEVELOPING COUNTRIES 1978-1984**




Declining interest rates have eased the debt service burden of the LDCs.

## Foreign Exchange Markets

In 1984, the U.S. dollar can be expected to retreat from its 1982 and 1983 highs, as the foreign exchange markets fully digest the growing U.S. trade deficit that will accompany a strong external performance by other hard-currency economies, notably West Germany, Japan, and Switzerland.

In Europe, another European Monetary System (EMS) realignment is likely by summer 1984 as the French franc and Italian lira continue to show fundamental weakness. British sterling should trade along a middle path between the dollar and the strong currencies as the market balances its favorable attitude toward the Thatcher administration against U.K. vulnerability to continued soft oil prices. On a trade-weighted basis, the U.S. dollar is expected to depreciate by 10 percent between the end of 1983 and the end of 1984, helping to bring the international value of the dollar more into line with its relative purchasing power.

Looking beyond year-end 1984, the trend of currency movements is likely to be dominated by trade flows. Interest differentials will decline in importance in the context of a generalized global recovery.

In recent years, the volume of foreign exchange transactions has grown by at least 50 percent annually. This growth will not be sustained into 1984. Reduced inflation rates and less exchange rate volatility, as well as the application of new accounting rules by multinational firms, will dampen the rate of growth of foreign exchange demand.

# Regional Analysis

## United States—Recovery Continues

1984 will mark the second year of growth from the four-year stagnation of 1979-82. Real Gross Domestic Product (GDP) is expected to grow by around 6.5 percent from the end of 1982 to the end of 1983, just about the average of the first four quarters of previous postwar recoveries. The experience of 1983 should help allay the concern that the large federal deficit and still high interest rates will prevent continued economic expansion in 1984, when real GDP is expected to rise 5.6 percent, slightly above average for the second year of postwar recoveries.

High interest rates will affect the composition of output, retarding growth in most sectors of the economy, particularly the interest-sensitive sectors such as business investment. These sectors will still grow—in some cases at respectable rates—but they will do so because stimulative forces will overpower the negative effects of high interest rates. With lower rates, growth could be more vigorous.

During the early stages of economic recovery, a few key sectors typically grow quite rapidly and can be characterized as the major forces of growth. As recovery progresses, the stimulus from these sectors diffuses into the rest of the economy and growth becomes more evenly distributed. This will be the case in 1984. Growth will be more broadly based than in 1983, with no one sector providing the major stimulus. But growth will still not be evenly distributed as some sectors grow more rapidly than overall GDP while others grow more slowly. The sectors experiencing above average growth will include consumption expenditures, residential construction, business expenditures on equipment, and the federal government. Sectors that will grow more slowly will include state and local governments, net exports, and nonresidential construction.

The balance of trade is expected to continue deteriorating in 1984, despite an increase in U.S. exports stimulated by a gradual depreciation of the U.S. dollar and economic recovery abroad. Imports will rise faster than exports, due to increased domestic purchasing power and pent-up demand accumulated during four years of stagnation. The merchandise trade balance will deteriorate to an $80 billion deficit while the current account will show a $35 billion deficit.

The monetary authorities face a difficult choice. If money grows too rapidly, inflation will eventually reaccelerate, possibly as early as the second half of 1984. But if money growth is reduced to a rate that would permit declining inflation in 1984, it would lead to a rise in interest rates and a possible downturn in the economy. Caught between these unpleasant alternatives, the Federal Reserve can be expected to choose the middle course, reducing money growth from the rapid rates of 1982-83 but holding it above the restrictive level of the 1980-81 period. Fiscal policy will remain expansive, throwing the burden of restraining inflation on monetary policy and increasing the difficulty of maintaining a moderate monetary policy.

**Table 2 North American Economies**

| | GDP Level ($ Billions) | Real GDP (Percent Change) | | | Inflation—CPI (Percent) | | |
|---|---|---|---|---|---|---|---|
| | 1983 | 1982 | 1983 | 1984 | 1982 | 1983 | 1984 |
| *Region* | $3,589.6 | -2.1 | 3.3 | 5.5 | 6.5 | 3.5 | 5.0 |
| United States | 3,274.6 | -1.9 | 3.4 | 5.6 | 6.1 | 3.3 | 5.0 |
| Canada | 315.0 | -4.4 | 2.8 | 4.5 | 10.9 | 6.0 | 5.5 |

Bank of America estimates for 1983; forecasts for 1984.

## Canada—Gradual Upswing

Canada is recovering gradually from the severe recession that gripped its economy from mid-1981 to late 1982. However, serious financial imbalances in the corporate and government sectors, high unemployment, and sluggish growth in personal income will restrain the pace of the upswing. Real gross domestic product is expected to rise by more than 4 percent in 1984. Consumer durables and residential construction will lead the recovery.

Inflation will edge down to 5.5 percent in 1984 due to moderately rising final demand, slowly increasing international commodity prices, a stable currency, and a cyclical improvement in productivity.

Investment spending will be weak well into 1984. Low capacity utilization and severely weakened corporate financial positions will force many business firms to retrench.

The thrust of fiscal policy will be stimulative and somewhat pro-business. Budget policy reflects the government's recognition of the need for a dynamic private business sector during the recovery. Anti-inflationary monetary policy will continue in Canada, but, as in the United States, rigid adherence to strict monetary growth targets has been discredited by recent policy experience.

A major threat to the recovery could arise if interest rates are pushed upward by increasing private

and public credit demands in both Canada and the United States.

The Canadian trade surplus will grow slowly through 1984. Improved terms of trade and rising export demand should lead to accelerating export growth, and the inventory accumulation associated with the pickup in economic activity will boost import growth substantially. The current account surplus is expected to disappear by year-end 1984, as Canada's growing deficit on services will erode the surplus on merchandise trade.

## Western Europe—Moderate Growth

1984 will be a year of moderate expansion, with a projected aggregate real growth rate of about 2 percent. There will be continued severe unemployment and labor market conflicts, but fiscal imbalances will tend to decline and inflation trends will show signs of converging. Conditions will compare favorably with those in the 1980-82 stagflation period, but unfavorably with those in the much more vigorous 1960s and 1970s.

The most likely 1984 picture is one of comparatively low and rather uniform growth rates among the Western European countries. Several of them will enjoy the continued export benefits of low 1981-83 exchange rates against the U.S. dollar relative to their own and U.S. price levels. This applies especially to West Germany, Switzerland, and the Benelux countries. But none of them will see more than slow-to-moderate growth of the major components of private or public domestic demand. Large excess capacity will inhibit new plant and equipment expenditures in most traditional industries, such as steel, autos, and textiles. Investment opportunities created by technological innovations and a growing demand for new computer-based services will provide only a partial offset. Budgetary difficulties will permit little or no real growth in the public sectors.

After a turnaround in the first half of 1983, the United Kingdom should in 1984 perform at least as well as most of its European Economic Community (EEC) partners, with a 2.5 percent real growth rate. Despite a slow 1983 turnaround, West Germany will share in the global recovery in 1984, although the problems associated with transforming and modernizing an outmoded industrial structure will persist. Germany's projected 1984 growth rate is also 2.5 percent. Prospects for expansion in France and Italy, by contrast, are clouded by difficulties in generating public support for consistent, credible economic policies.

The aggregate Western European inflation rate in 1984 is likely to remain at about 8 percent, after falling from more than 10 percent in 1982. The 1984 projection is based on declining rates of price increases in Italy and the semi-industrial countries in Southern Europe, along with continued low or moderate rates in West Germany, Switzerland, Benelux, and the United Kingdom. Inflation differentials will nevertheless be large enough to undermine exchange-rate parities among the currencies of the European Monetary System (EMS), with consequent additional rate realignments or a possible breakup of the EMS in 1984.

By and large, Western European trade balances will show little change in 1984, reflecting both a strengthening of U.S. and world demand and the delayed pickup in internal spending relative to that in the United States. A possible exception is the United Kingdom, which by 1984 should start regaining some of its lost export competitiveness. If the government's fiscal austerity efforts succeed, France may be able to narrow her trade deficit.

Changes in current accounts also will be relatively small, even though interest receipts from Eastern Europe and LDCs will decline because of rescheduling agreements and debt service problems. The 1984 aggregate current account deficit for Western Europe is projected at $13 billion, which is slightly lower than that in 1983, but a large improvement over the deficits recorded in 1980-81. West Germany will continue to run a healthy, though reduced, surplus. Britain should be able to maintain a surplus position, whereas France will see its deficit decline.

**Table 3 Major Economies of Western Europe**

| | GDP Level ($ Billions) | Real GDP (Percent Change) | | | Inflation—CPI (Percent) | | |
|---|---|---|---|---|---|---|---|
| | 1983 | 1982 | 1983 | 1984 | 1982 | 1983 | 1984 |
| *Region* | **$3,223.3** | 0.4 | 0.8 | 2.1 | 10.3 | 8.2 | 7.9 |
| W. Germany | **740.8** | -1.1 | 1.0 | 2.5 | 5.3 | 3.5 | 3.0 |
| France | **532.4** | 1.7 | 0.0 | 1.5 | 11.8 | 9.5 | 9.5 |
| United Kingdom | **510.0** | 1.4 | 2.0 | 2.5 | 8.6 | 4.0 | 6.5 |
| Italy | **361.7** | -0.3 | -0.8 | 1.4 | 16.5 | 17.2 | 14.5 |
| Switzerland | **108.9** | -1.7 | -1.0 | 2.0 | 5.6 | 3.5 | 3.5 |

Bank of America estimates for 1983; forecasts for 1984.

## Eastern Europe—Troubled Times

Eastern Europe will continue to experience serious external and internal financial difficulties in 1984, even though current adjustment policies should by then have started to produce results. Many countries will suffer from shortages of investment capital and be forced to accept very low growth rates through the mid-1980s. Recovery from the sharp 1980-82 contraction will be gradual and uneven, despite the 1983-84 pickup in world trade. The financial climate in many Eastern European countries

may well improve by the end of 1984, with a reduced dependence on external borrowings.

The growth rate for the region is projected at 2.5 percent in 1984. This will be insufficient for any perceptible increase in living standards, and there will be little margin for policy error over the next two years. In 1984, Poland should be able to show its first output increase in four years. Hungary and Czechoslovakia will continue to exhibit extremely slow growth. East Germany, Bulgaria, and Romania will see somewhat more rapid expansion, although further antagonisms in East-West relations could have an adverse impact on them.

Investment priorities continue to favor energy and agriculture within the limits of reduced national investment budgets. The energy picture will not show much improvement until 1985. East Germany and the USSR will continue to emphasize industrial machinery and high technology, while Romania, Bulgaria, and Hungary will stress agriculture.

Fiscal and monetary policies will be geared toward stimulating designated priority sectors, both through government expenditure and through adjustments of price and quota-based incentives. Decreased fiscal expenditure will help keep money supply growth at moderate levels, with expansion rates of 10-13 percent.

Inflation is expected to average about 10 percent in 1984, after dropping to 8.5 percent in 1983 from more than 13 percent the year before. Inflation remains very slow in the Soviet Union, with a rate of about 4 percent. At the other extreme, inflation in Poland will reach about 75 percent in 1984.

**Table 4 Major Economies of Eastern Europe**

| | GDP Level ($ Billions) | Real GDP (Percent Change) | | | Inflation—CPI (Percent) | | |
|---|---|---|---|---|---|---|---|
| | 1983 | 1982 | 1983 | 1984 | 1982 | 1983 | 1984 |
| *Region* | $1,693.4 | 2.0 | 2.4 | 2.5 | 13.2 | 8.5 | 10.1 |
| USSR | 1,102.5 | 2.6 | 2.7 | 2.6 | 6.0 | 4.0 | 4.0 |
| E.Germany | 169.9 | 2.6 | 2.8 | 2.5 | 5.0 | 6.0 | 7.0 |
| Poland | 100.0 | -5.0 | 0.0 | 2.4 | 100.0 | 50.0 | 75.0 |
| Yugoslavia | 66.0 | 2.0 | 2.1 | 2.8 | 32.9 | 23.0 | 20.0 |

Bank of America estimates for 1983; forecasts for 1984.

Exports by Eastern Europe are expected to grow at an 8 percent rate in 1984, a noticeable improvement over the previous two years. Imports are expected to rise by about 12 percent in 1984, somewhat below the 1983 increase.

Total external debt is expected to show virtually no growth in 1984, after rising slightly in 1983. The modest increase in regional debt since 1982 is accounted for by the Soviet Union, as the rest of Eastern Europe continues to reduce its debt level by $1 to $2 billion annually. However, even the reduced debt level is proving difficult to service. With medium- and long-term regional debt now estimated at almost $110 billion, economic performance must improve before new debt can be added. Only gradual repayment of maturing debt is expected, at least until new revenues are generated from natural gas exports and export demand is boosted by recovery in the West.

Politically, a slow easing of East-West tensions seems likely as global recovery and increased energy trade with Western Europe take place. Eastern Europe will be well positioned to take advantage of opportunities for increased financing and trade after 1984, when most of the adjustment process will have been completed. Should the recovery falter in the meantime, Eastern European planners would find their current policies in need of only minimal revision.

## Asia/Pacific—Above Average Growth

Following a weak turnaround in 1983, the Asia/Pacific economies will see their aggregate expansion accelerating to a rate of 4.4 percent in 1984. This growth rate will be moderate by historical standards, but above the 1984 world average. Income growth in the United States and Western Europe will provide some stimulus for regional growth, particularly in East Asia, even though this link is no longer as strong as in the past. Certain noncyclical factors will also aid the Asian recovery: availability of external financing, generally capable economic policy management, and the large role played by agriculture—insulated from the global business cycle—in the economies of South and Southeast Asia.

The regional current account deficit will decline further. Inflation rates are expected to continue at comparatively low levels as fiscal and monetary policies remain generally conservative. U.S.-E.E.C. protectionism might speed up the ongoing restructuring of the Asian economies by promoting broader product diversification, particularly through increased stress on technologically advanced goods and on processing of domestic primary products.

Japan's growth, estimated at 3.4 percent in 1983, will rise to 4 percent in 1984. The recovery will be supported by an improvement in exports, an increase in real disposable income, and rising consumer confidence.

Growth will also gain momentum in Asia's developing countries during 1984, primarily through an improvement in world export demand and some strengthening of commodity prices. There will be a delayed recovery in private and public investment. Many Asian LDCs are now emphasizing investments that require only a low import content and have a high potential for expanding domestic employment opportunities. The aggregate growth rate of the developing countries of East Asia (Korea, Hong Kong, Taiwan)

should be especially high by world standards, exceeding 6 percent in 1984, notwithstanding their emphasis on less-productive social overhead and ongoing costly shifts in industrial structure.

Among the ASEAN countries (Singapore, Malaysia, the Philippines, Indonesia, and Thailand), Singapore's economic management is of especially high quality—a major reason for the country's very favorable 1984 outlook. Indonesia, and to some extent Malaysia, will suffer from weak oil prices and depressed oil refining. The Philippines is experiencing financial difficulties, and large-scale project cutbacks will continue.

The economic progress of India and China is expected to continue at a moderate pace. While recent growth in China has reflected an expansion of heavy industry, current plans call for a priority shift to light, labor-intensive industries and agriculture.

Aggregate output in Australia will pick up in 1984, whereas New Zealand will remain one of the weakest performers in the region.

Fiscal and monetary policies will remain conservative in most Asian countries. Generally, inflation in the Asian economies will be under control, as fiscal policies remain tight and only a cautious easing of monetary policies can be foreseen. Declining world interest rates and soft oil prices should help contain price rises. The aggregate inflation rate for the region is forecast at 5 percent in 1984, up slightly from 1983.

The region's aggregate current account deficit is forecast to decline to $4 billion in 1984 from $9 billion in 1983. Japan's 1984 surplus will rise to an estimated $23 billion as the export-import balance benefits from the weak 1982-83 yen, soft oil prices, and increased investments designed to promote industrial rationalization and to reduce import requirements. The bulging external surplus will intensify protectionist pressures in other industrial nations. But the current account is likely to lose some of its strength in subsequent years, as narrower international interest rate differentials reduce or reverse capital outflows and the yen starts to re-appreciate.

The industrial economies' recovery and continued oil market softness will impact favorably on the trade positions of middle-income oil importers such as Korea, Taiwan, and Hong Kong. These countries' export market shares are expected to increase. A moderate rise in commodity prices should help the export growth of the South and Southeast Asian economies. Income remittances from the Middle East, though reduced, will continue to be sizable for Korea, India, the Philippines, and Thailand.

As current account positions improve, the levels of foreign reserves will increase. Moreover, most of the Asian countries are not likely to encounter difficulties in obtaining any needed balance of payments financing, considering their favorable prospects for economic growth and political stability.

**Table 5 Major Asia/Pacific Economies**

| | GDP Level ($ Billions) | Real GDP (Percent Change) | | | Inflation—CPI (Percent) | | |
|---|---|---|---|---|---|---|---|
| | 1983 | 1982 | 1983 | 1984 | 1982 | 1983 | 1984 |
| *Region* | **$2,212.4** | 3.1 | 3.4 | 4.4 | 4.7 | 4.1 | 5.0 |
| Japan | **1,221.0** | 3.0 | 3.4 | 4.0 | 2.7 | 2.0 | 3.9 |
| China | **229.5** | 7.4 | 4.5 | 5.0 | 1.9 | 2.5 | 2.5 |
| India | **178.4** | 0.0 | 4.0 | 5.0 | 7.9 | 9.8 | 8.5 |
| Australia | **155.9** | 0.1 | 0.5 | 3.7 | 11.1 | 8.5 | 6.5 |
| So. Korea | **74.7** | 5.3 | 7.5 | 7.5 | 7.3 | 5.0 | 8.5 |
| Philippines | **35.3** | 2.8 | 2.3 | 3.0 | 10.9 | 10.0 | 10.0 |

Bank of America estimates for 1983; forecasts for 1984.

Furthermore, there is a generally positive attitude toward business in Asia, and many countries are attempting to improve their attractiveness to foreign investors. In addition, large co-financing commitments by the World Bank and enlarged IMF credit facilities should prevent severe economic disruptions in the deficit countries.

## Latin America—Slight Recovery

For Latin America, 1984 will be a year of slow and uneven recovery, following the sharpest downturn since the Great Depression. In accordance with IMF-supported austerity programs, the major countries will continue to curb the growth of imports, trim government deficits, and minimize new external borrowing. Some progress also will be made in bringing down inflation rates from their extraordinary 1983 levels. Still, many countries will need to seek further loan reschedulings.

The gradual economic expansion in the industrialized countries and growth of world trade will do much to pull most of the Latin American countries out of their present slump. Regional economic activity in 1984 will grow by 1 percent, compared with a nearly 2 percent decline in 1983. On a per capita basis, real incomes in 1984 will remain essentially unchanged, after dropping by 2 to 4 percent annually in recent years. Mexico and Argentina have prospects for a partial recovery in 1984, whereas Brazil and Venezuela will see further declines in aggregate output levels.

Real gross investment in 1984 will be considerably below historical levels, yet above the depressed 1983 level. Private and public capital formation will reach $150 billion, or about 20 percent of gross regional product. Many large-scale projects will be postponed for a year or two until external or internal financial savings are once again sufficient to permit their realization. Investment activity continues to be concentrated in energy, manufactures, and infrastructure. The public sector still dominates the overall investment picture; attempts to increase

private capital expenditures, as in Chile and Peru, have not been very successful.

Ongoing austerity programs and the need to re-inspire foreign creditor and investor confidence will necessitate relatively restrictive fiscal policies in 1984, even though domestic pressure for further expansion of public sector spending will be strong. The IMF, with its key role among foreign creditors, is now actively involved in economic policy-making and can withhold funds when fiscal or monetary targets are not met. As a consequence, the growth of the money supply for the region is expected to drop to about 80 percent in 1984, after reaching about 110 percent in 1983. The new restrictiveness of both fiscal and monetary policies will lead to a projected drop in inflation to 100 percent in 1984 from 130 percent in 1983. Foreign exchange rates will be subject to much more rapid depreciation than before, and this will permit currency values to adjust to recent international inflation differentials and to pave the way for better trade balances.

**Table 6 Major Economies of Latin America**

| | GDP Level ($ Billions) | Real GDP (Percent Change) | | | Inflation—CPI (Percent) | | |
|---|---|---|---|---|---|---|---|
| | 1983 | 1982 | 1983 | 1984 | 1982 | 1983 | 1984 |
| *Region* | **$747.1** | -0.5 | -1.7 | 1.0 | 69.7 | 132.1 | 99.4 |
| Brazil | **283.7** | 1.4 | -2.0 | -0.8 | 98.0 | 170.0 | 135.0 |
| Mexico | **155.0** | -0.2 | -5.0 | 1.5 | 59.0 | 99.0 | 48.0 |
| Argentina | **91.0** | -5.7 | 1.5 | 3.5 | 164.8 | 315.0 | 260.0 |
| Venezuela | **66.3** | 0.6 | -1.1 | -0.4 | 9.6 | 16.0 | 14.0 |

Bank of America estimates for 1983; forecasts for 1984.

Exports from Latin America are expected to increase by nearly 6 percent in dollar terms in 1984, after rising about 5 percent in 1983 and declining by 8 percent in 1982. The 1982 decrease was a major contributing factor in the area's debt service difficulties, and the 1984 export recovery will be crucial to their resolution. Imports should rise about 10 percent in 1984 as the recovery progresses. The merchandise trade balance of Latin America in 1984 will thus show a surplus of $20 billion, compared to just $7 billion in 1982. The 1984 current account deficit will amount to $20 billion as interest payments and other services produce net annual outflows of $40 billion. This represents a consolidation of the trade and payments gains registered in 1983 and a marked improvement over the current account deficits of $35 to $40 billion in 1981 and 1982.

Net capital inflows from private and official sources in 1984 are projected to show an increase from 1983 but remain below the levels recorded prior to the reschedulings of 1982. Private foreign investment, in particular, should gradually see an upswing, as successful trade and payments adjustment is demonstrated. The projected inflows will be sufficient to prevent any substantial reserve depletion, and the $5 billion reserve loss in 1983 will be partially recouped in 1984.

Latin America's medium- and long-term external debt will total nearly $250 billion at the end of 1983 and should rise by a moderate $19 billion in 1984. This represents significantly slower debt expansion compared to the 15-20 percent growth recorded annually in 1981-83. The four countries with the highest total debt service ratios, Argentina, Brazil, Mexico, and Venezuela, will see their ratios reduced from an average of 125 percent in 1983 to about 100 percent in 1984.

### The Middle East—Rising Oil Exports

The oil-producing Middle Eastern countries will enjoy a gradual expansion in 1984, as recovery continues in the OECD countries and global oil demand starts to grow again. However, low oil revenues in 1984 relative to 1980-82 will continue to force governments to curtail the growth of public spending and associated imports. The huge current account surpluses of the early 1980s have been replaced by moderate deficits, with some countries entering the international capital markets as borrowers. The non-oil Middle East, especially Turkey and Pakistan, will continue to grow vigorously, mostly due to successful economic policies and international aid and grants.

The growth of the Middle Eastern economies will be closely tied to the recovery of the oil-importing industrialized nations. The Middle East is projected to grow at an aggregate 6.6 percent in 1984, compared with a small decline in 1983. The precipitous drop in the production of Saudi Arabian oil to about 4.5-5.0 mb/d in 1983, and a projected rebound to 6.0 mb/d in 1984, will lead to a turnaround in its economic performance, with an 8 percent real growth in 1984. Iran's economy, after recovering in 1983, will continue to show progress in industrial development and in increased oil production, after a string of negative growth rates in the initial post-revolution years. The small Persian Gulf countries are expected to grow only moderately in 1984, even though their oil production will be well above the very low levels of 1982. The non-oil countries along the Mediterranean will expand at rates of 4 to 7 percent in 1984, in part via increased home-market activity, in part through more diversified exports.

The inflation rate in the Middle East, which reflects heavy subsidies and administered prices in the oil countries, will edge down from nearly 16 percent in 1983 to 14 percent in 1984. Turkey and Iran are making strenuous efforts to bring their inflation rates below 20 percent. Israel has had very little success in curbing its inflation and will continue to

record runaway rates in 1984. Pakistan's rate of price increases will be below 10 percent.

The long- and medium-term external debt in the region is projected to grow to $85 billion in 1984. Part of the debt increase is due to borrowing by Iraq from neighboring Arab countries to finance its war with Iran, and part of it is explained by Israel's borrowings on world capital markets to cover its balance of payments deficit. By contrast, Turkey's debt, which began to decline in 1982, will continue its downward trend in 1984. The combined Middle East international reserves (excluding gold) will remain stable at $66-$68 billion, which is $10 billion less than the 1980 level.

**Table 7 Major Economies of the Middle East**

| | GDP Level ($ Billions) | Real GDP (Percent Change) | | | Inflation—CPI (Percent) | | |
|---|---|---|---|---|---|---|---|
| | 1983 | 1982 | 1983 | 1984 | 1982 | 1983 | 1984 |
| *Region* | **$427.2** | -2.0 | -0.6 | 6.6 | 14.0 | 15.9 | 14.0 |
| Saudi Arabia | **142.0** | -6.0 | -10.0 | 8.0 | 0.0 | 2.0 | 2.0 |
| Iran | **92.0** | 2.2 | 5.0 | 4.0 | 18.7 | 25.0 | 20.0 |
| Iraq | **38.0** | -5.0 | -5.0 | 8.0 | 9.0 | 11.0 | 15.0 |
| Israel | **20.5** | 1.2 | 4.0 | 4.0 | 120.3 | 120.0 | 110.0 |

Bank of America estimates for 1983; forecasts for 1984.

## Africa—The Turnaround Begins

Economic conditions in Africa are expected to improve somewhat in 1984 after three dismal years. Several major African nations will be recovering from a drawn-out recession, accentuated by a severe shortage of foreign exchange, as the economic expansion of the OECD countries helps brighten African export prospects. The combination of moderating price increases for imported goods and rising local food prices, due to the prolonged drought, will keep overall inflation rates close to recent trends. Some improvement will occur in trade and current account balances, partly because of cutbacks in public spending in accordance with IMF policy prescriptions.

Growth of aggregate output is estimated at 3.2 percent in 1984, after having stagnated in 1983. The five North African countries—Algeria, Egypt, Libya, Morocco, and Tunisia—will continue to show fairly rapid expansion rates. With the end of its 1981-83 slump, the South African economy is likely to enjoy a mild turnaround, barring another drop in world gold prices. Among the remaining countries in black Africa, those that are relatively well diversified, well managed, and rich in natural resources—e.g., Botswana, Cameroon, Gabon, the Congo, the Ivory Coast, Nigeria, and Zimbabwe—are also projected to experience positive growth rates. In contrast, the economic record of countries that have been severely afflicted by drought will worsen further, with negative growth and rapidly falling per capita incomes.

Agricultural output is expanding by only 1 to 2 percent annually, reflecting inadequate investment, inappropriate pricing policies, and recurring droughts in the Sahel and in Eastern and Southern Africa. Industrial production in Africa—which is dominated by food processing and textiles and is handicapped by poor access to imported raw materials and spare parts—is expected to rise slowly with improved foreign exchange availability in 1984. Output from mining is also anticipated to expand moderately, reflecting increased global demand.

The region's inflation rate will remain at the 16 percent level typical of recent years. Export revenues in 1984 will grow by only about 5 percent in dollar terms, with volume remaining stagnant. Import expenditure will decline by 2 percent in 1984, reinforcing the recent trend toward better trade balances. As a consequence, the combined regional current account deficit in 1984 will amount to $17 billion, compared with about $25 billion in the three previous years.

**Table 8 Major Economies of Africa**

| | GDP Level ($ Billions) | Real GDP (Percent Change) | | | Inflation—CPI (Percent) | | |
|---|---|---|---|---|---|---|---|
| | 1983 | 1982 | 1983 | 1984 | 1982 | 1983 | 1984 |
| *Region* | **$417.6** | 0.0 | 0.3 | 3.2 | 16.5 | 16.4 | 16.0 |
| Nigeria | **87.4** | -2.5 | -2.0 | 2.0 | 18.0 | 15.0 | 15.0 |
| South Africa | **78.5** | -0.9 | -3.0 | 2.5 | 14.7 | 12.5 | 13.5 |
| Algeria | **46.4** | 2.0 | 2.0 | 5.0 | 10.0 | 9.0 | 8.0 |
| Egypt | **41.9** | 6.2 | 6.8 | 7.6 | 14.9 | 15.0 | 15.0 |
| Sub-Sahara Africa* | **104.5** | -0.9 | -0.3 | 1.4 | 18.2 | 24.4 | 25.0 |

*Excludes South Africa.

Bank of America estimates for 1983; forecasts for 1984.

Bank of America NT&SA, founded in 1904 by A. P. Giannini, has some 1,077 branches in California communities and 135 branches and representative offices overseas. As of September 30, 1983, BankAmerica Corporation's consolidated assets were more than $122 billion.

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